

Group Lotus plc
Annual report
for the year ended 31 March 2004

Registered Number 606189



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Group Lotus plc

Directors' report for the year ended 31 March 2004

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2004.

Principal activities

The principal activity of the Company and its subsidiaries comprises the manufacture and sale of high performance motor cars, the provision of engineering consultancy services and the commercial development and supply of technology to automotive and industrial clients world-wide.

Review of business and future developments

The business recorded a net profit of £0.2m in 2004/05, a major turnaround from the losses made over the last three years.

During the year Lotus Engineering steadily built up its customer base following the successful delivery of a number of engineering projects. A new Engineering office opened in China at the beginning of 2004 to forge closer links to existing and potential customers. This brings the number of Lotus Engineering's offices around the world to five (UK, Germany, Malaysia, China and USA).

Lotus Engineering also continues to research new technologies with the ultimate aim to put these innovations into production through partnerships with Tier One Suppliers or OEM customers. Two such advancements likely to see production are engine technology AVT (Active Valve Train) and chassis technology VVA (Versatile Vehicle Architecture).

Lotus Cars concentrated on producing new model variants. The Elise, with a new hi-tech 189hp engine provided by Toyota Motor Corporation, was introduced to the World's biggest car market with its debut at the Los Angeles Auto Show. The first review by the media of the new US Lotus Elise took place in the USA in March 2004 and the initial reaction is extremely positive. The first USA specification cars will be delivered in June 2004. A non-USA version of this 189hp Elise (designated Elise 111R) was launched into the European, Asia Pacific and Australian markets in January 2004. Six weeks later in March, the new Lotus Exige was unveiled at the Geneva Motorshow. The response from dealers, customers and media for these new vehicles is extremely positive; indeed the Lotus Elise 111R won the title "Best Sportscar 2004" awarded by BBC Top Gear Magazine.

To accompany the exciting new products, Lotus ventured into new markets around the world including Mexico, Hungary and Russia. The Japanese market has grown steadily, since the relaunch of Lotus in Japan in early 2003, to become our third biggest market.

During the year the £40m floating rate notes were repaid and replaced by a three year fixed interest rate loan from Citibank.

The Board takes this opportunity to thank all Lotus employees for their hard work and commitment to the Company.

Pensions

In common with many long established businesses, our final salary pension scheme, the Lotus Pension Plan, has moved into a funding deficit as a result of falling values in the fund's investments, coupled with increasing costs attributable to liabilities.

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Our actuarial assessment of the ongoing deficit is significantly below the snapshot FRS 17 calculation in note 6 to the accounts. Contributions from the company are being increased in the new financial year in order to address over time the deficit as calculated by the scheme's actuary.

Results

The Group's consolidated profit for the year after taxation amounted to £231,000 (2003 loss £1,790,000).

The directors do not recommend the payment of a dividend (2003 £Nil), and the profit for the year has been deducted from the deficit on reserves.

Research and development

The Group is committed to research and development and undertaking such expenditure as is required to maintain its current market position and further enhance future growth and profitability.

All such expenditure is written off as incurred. Research and development expenditure charged to the profit and loss account amounted to £2,623,000 (2003 £3,777,000).

Employees

The directors acknowledge the importance of good communication and employee relations. Communications are essential to progress, and the Group has devoted considerable time and effort to ensure that employees are well informed about those aspects of the business which affect them.

Employees and their representatives are briefed on all matters relevant to their area of operation and their views are sought and taken into account.

Applications for employment from disabled persons are fully considered, bearing in mind the aptitudes and abilities of the persons concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Group continues. It is the policy of the Group to further as far as possible the training, career development and promotion of disabled employees.

Payment of creditors policy

The Group's payment policy is to pay on terms agreed with individual suppliers. The average number of days outstanding in respect of trade creditors at 31 March 2004 was 64 days (2003 64 days).

Directors

The following directors served during the year and to the date of this report:

Dato' Mokhzani Mahathir
Tengku Tan Sri Dr Mahaleel Tengku Ariff
Simon Patrick Wood
Clive Dopson
James Barker Robertson Stronach
Victor Min Hon Kiam
Albert Lam

Appointed 3 July 2003

None of the directors has an interest in shares of the Group which are required to be shown pursuant to Section 234 of the Companies Act 1985.

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Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



James Stronach
Director

7 July 2004

Group Lotus plc

Independent auditors' report to the members of Group Lotus plc

We have audited the financial statements which comprise the profit and loss accounts, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

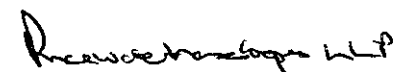
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2004 and of the profit of the Company and Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

Date: 22 September 2004

Group Lotus plc

Consolidated profit and loss account for the year ended 31 March 2004

	Note	2004 £'000	2003 (restated) £'000
Turnover – group and share of joint venture	2	145,236	156,303
Less: Share of joint venture's turnover		(940)	(1,009)
Group turnover – continuing operations		144,296	155,294
Cost of sales		(108,333)	(119,614)
Gross profit		35,963	35,680
Operating expenses	3	(32,980)	(32,458)
Group operating profit – continuing operations	4	2,983	3,222
Loss on sale of tangible fixed assets		-	(227)
Share of joint venture's operating profit		323	242
Profit before interest and taxation		3,306	3,237
Interest receivable	7	413	482
Interest payable and similar charges	7	(3,086)	(4,320)
Profit/(loss) on ordinary activities before taxation		633	(601)
Taxation	9	(402)	(1,189)
Retailed profit/(loss) for the financial year	20	231	(1,790)

The comparatives for 2003 have been restated, details of the restatement are disclosed in note 1 to the accounts.

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Company profit and loss account for the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Turnover – continuing operations	2	744	456
Operating expenses	3	(1,450)	(11,237)
Operating loss - continuing operations	4	(706)	(10,781)
Interest receivable	7	2,815	3,280
Interest payable	7	(2,510)	(3,374)
Loss on ordinary activities before taxation		(401)	(10,875)
Income from fixed asset investments	8	245	-
Loss before taxation		(156)	(10,875)
Taxation	9	-	(4)
Loss for the financial year	20	(156)	(10,879)

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Statement of total recognised gains and losses

	2004 Group	2003 Group (restated)	2004 Company	2003 Company
	£'000	£'000	£'000	£'000
Profit/(loss) for the financial year	231	(1,790)	(156)	(10,879)
Foreign exchange translation loss	(516)	(129)	-	-
Total recognised profits/(losses) for the year	(285)	(1,919)	(156)	(10,879)
Prior year adjustment (note 1)	483			
Total recognised profits since the last annual report	198			

Statement of historical cost profits and losses for the year ended 31 March 2004

	2004 Group	2003 Group (restated)	2004 Company	2003 Company
	£'000	£'000	£'000	£'000
Profit/(loss) on ordinary activities before taxation	633	(601)	(156)	(10,875)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	92	92	-	-
Historical cost loss on ordinary activities before taxation	725	(509)	(156)	(10,875)
Historical cost loss for the year retained after taxation	323	(1,698)	(156)	(10,879)

Group Lotus plc

Consolidated balance sheet as at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	10	36,362	35,455
Investment in joint venture			
- Share of gross assets		11,127	11,266
- Share of gross liabilities		(10,673)	(10,792)
	11	454	474
		36,816	35,929
Current assets			
Stocks	12	14,340	13,676
Debtors			
Falling due within one year	13	46,472	36,811
Falling due after more than one year	13	13,511	43,510
		59,983	80,321
Cash at bank and in hand		6,376	18,535
		80,699	112,532
Creditors: amounts falling due within one year	14	(63,785)	(104,578)
Net current assets		16,914	7,954
Total assets less current liabilities		53,730	43,883
Creditors : amounts falling due after more than one year	15	(40,445)	(30,788)
Provisions for liabilities and charges	17	(3,005)	(2,530)
		10,280	10,565
Capital and reserves – equity interests			
Called up share capital	18	44,436	44,436
Share premium account	19	8,120	8,120
Revaluation reserve	19	6,395	6,487
Other reserve	19	210	210
Profit and loss account	19	(48,881)	(48,688)
Total shareholders' funds	20	10,280	10,565

The financial statements on pages 5 to 33 were approved by the board of directors on 7 July 2004 signed on its behalf by



James Stronach

Director

Company balance sheet as at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	10	5,218	5,553
Investments	11	-	-
		5,218	5,553
Current assets			
Debtors			
Falling due within one year	13	26,091	1,323
Falling due after more than one year	13	13,511	39,807
		39,602	41,130
Cash at bank and in hand		-	1,047
		39,602	42,177
Creditors: amounts falling due within one year	14	(2,039)	(44,449)
Net current assets/(liabilities)		37,563	(2,272)
Total assets less current liabilities		42,781	3,281
Creditors: amounts falling due after more than one year	15	(40,445)	(789)
		2,336	2,492
Capital and reserves – equity interests			
Called up share capital	18	44,436	44,436
Share premium account	19	8,120	8,120
Other reserve	19	210	210
Profit and loss account	19	(50,430)	(50,274)
Total shareholders' funds	20	2,336	2,492

The Company's financial statements on pages 5 to 33 were approved by the board of directors on 7 July 2004 and signed on its behalf by:


James Stronach
Director

Group Lotus plc

Consolidated cash flow statement for the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	21(1)	617	19,053
Returns on investment and servicing of finance			
Interest received		271	435
Interest paid		(3,322)	(4,087)
Interest element of finance lease rentals		-	(4)
Net cash outflow from returns on investment and servicing of finance		(3,051)	(3,656)
Taxation			
Overseas taxation paid		(83)	(1,165)
UK taxation paid		-	(7)
Net cash outflow from taxation		(83)	(1,172)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,715)	(2,034)
Disposal of tangible fixed assets		8	1,157
Dividend received from JV company		245	-
Net cash outflow from capital expenditure and financial investment		(4,462)	(877)
Net cash (out)/inflow before financing		(6,979)	13,348
Financing			
Proceeds from rights issue		-	30,000
Shareholder's loan		-	(7,000)
Repayment of bank loans		(43,226)	(7,861)
Issue of new bank loans		40,000	-
Group loans		-	(10,000)
Repayment of capital element of finance leases		(21)	(106)
Net cash (out)/inflow from financing		(3,247)	5,033
(Decrease)/increase in cash in the year	21	(10,226)	18,381

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Reconciliation of net cash flow to movement in net debt

	2004	2003
	£'000	£'000
Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(10,226)	18,381
Cash inflow from increase in debt and lease financing	3,247	24,967
Change in net debt resulting from cash flows	(6,979)	43,348
Non cash movements	(116)	(207)
Exchange movements	(1,663)	(316)
Movement in net debt in the year	(8,758)	42,825
Net debt at 31 March 2003	(35,156)	(77,981)
Net debt at 31 March 2004	(43,914)	(35,156)

Additional information on the cash flows is set out in note 21.

Group Lotus plc

Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Going concern and financial support

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. The validity of this assumption depends upon the continued support of Perusahaan Otomobil Nasional Berhad (Malaysian) ("Proton") (see note 25).

In addition, as indicated in note 15, Proton is guarantor to certain existing indebtedness of the Group including the new bank loan drawn down during the year. The directors of Proton have confirmed that they have the financial resources to honour these guarantees, and will provide the Group with the financial support to enable it to repay the amount due on the due date in October 2006.

Taking the foregoing into account the directors of the Company consider it appropriate to prepare the financial statements on the going concern basis.

Basis of consolidation

These consolidated financial statements have been prepared from the financial statements of the Company and its subsidiaries drawn up to 31 March 2004.

Joint ventures are accounted for under the gross equity method. Lotus Finance Limited has a 31 December year end; its results are accounted for based upon management accounts for the period to 31 March 2004 and the latest available audited accounts to 31 December 2003.

Turnover

Turnover represents the sales value of goods and services supplied to customers and is net of commission paid to dealers and VAT.

Turnover recognised on engineering contracts represents the amount of work done at the appropriate stage of completion of each project.

Change in accounting policy re turnover

Turnover on the sale of a vehicle is recognised upon despatch of the vehicle to the dealer. Previously turnover was not recognised until the vehicle was formally adopted by a dealer. The accounting policy has been changed in line with the change in dealer contracts, which amends the point of sale from adoption of the vehicle to delivery of the vehicle. The new accounting policy is consistent with that adopted by fellow subsidiaries within the Group and with general industry practice. The effect of this policy on the results for 2002/03 and 2003/04 balance sheet is set out in note 1.

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Depreciation

The cost (or revalued amount) of fixed assets is depreciated in equal instalments over their estimated useful lives, which are as follows:

Freehold buildings	40 years
Plant and machinery	2 to 10 years
Motor vehicles	4 to 5 years
Fixtures, fittings, tooling and equipment	2 to 10 years

Freehold land is not depreciated.

To the above the cost of patents purchased from third parties is amortised in equal instalments over a term of three years commencing in the year following acquisition.

Vehicle tooling costs are depreciated on a per unit basis which takes into account actual production of each model or an estimate of future production to the end of model lives.

Assets in the course of construction are depreciated with effect from the date they are brought into operational use.

Research and development expenditure

The costs of general research and development including labour and materials are written off to the profit and loss account as incurred.

Stocks and work in progress

Stocks are stated at the lower of cost (including manufacturing overheads) and net realisable value.

Turnover is recognised on long-term engineering contracts on the basis of the stage of completion of such contracts at the year end, where the contract outcome can be assessed with reasonable certainty. Related costs are included in cost of sales. Full provision is made for all foreseeable losses on contracts entered into before the year end.

Amounts are included within debtors and payments in advance to recognise timing differences arising between amounts invoiced, received and paid and amounts recognised in the profit and loss account on individual engineering contracts.

Taxation

The charge for taxation is based on the result for the year. In accordance with FRS 19, deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into Sterling at the rates ruling at the date of the transaction. All exchange differences arising therefrom are included in the profit and loss account.

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The assets and liabilities of overseas subsidiaries are translated at the year end rate of exchange. The results of overseas subsidiaries are translated at the average exchange rate applicable to the year. Exchange gains or losses arising on the translation of assets, liabilities and reserves of overseas companies are shown as a movement on reserves.

Warranty provision

Provision is made for the estimated liability on all products under warranty in addition to claims already received. The provision is based on experienced levels of claims arising during the period of warranty.

Leases

Assets held under finance lease agreements are included in tangible fixed assets and are amortised in accordance with the Group's depreciation policy. Obligations under such agreements are included in creditors net of finance charges allocated to future years. Finance charges are taken to the profit and loss account so that the annual rate of charge on the outstanding obligation at the end of each accounting year is constant. Operating lease costs are charged to the profit and loss account as incurred.

Pensions

The cost of providing pensions is charged to the profit and loss account over the expected service lives of employees in the scheme. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the financial statements of the Company. Provision against the underlying value of assets of the Group's investments in subsidiaries is made, where in the opinion of the directors, there is an impairment in value of the underlying business.

Investments in joint ventures

Joint ventures are arrangements in which the Group has a long term interest and shares control under a written contractual agreement. Investments in joint ventures are stated at cost in the financial statements of the Company.

The consolidated profit and loss account includes the Group's share of the profits of joint ventures and the consolidated balance sheet includes the investments in joint ventures at cost plus the Group's share of post acquisition reserves.

Impairment

In accordance with Financial Reporting Standard No 11 "Impairment of fixed assets and goodwill" the Group performs impairment reviews using the forecast net future cash flows of the business affected, discounted to net present value using the Group's cost of capital. Any impairment provision is offset directly against the underlying assets of the business deemed to have suffered the impairment.

Provisions

In accordance with FRS12 "Provisions, contingent liabilities and contingent assets" the Group provides in full for liabilities when it has a legal or constructive obligation arising from a past event.

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Notes to the financial statements for the year ended 31 March 2004

1 Changes in accounting policy

Comparative figures have been restated to reflect a change in accounting policy in relation to income recognition. Details are set out in the statement of accounting policy on page 12.

As a result, the comparative figures for the year ended 31 March 2003 have been adjusted as follows:

	Loss for the year after tax £'000	Net assets £'000
As previously reported	(2,273)	10,082
Effect of the change in revenue recognition	483	483
As restated	(1,790)	10,565

Current year profit before taxation was increased by £189,000 following the above change of accounting policy. There has been no impact upon the taxation charge arising from this change of accounting policy due to the existence of trading losses within the group.

2 Segment information

	Group 2004 £'000	Group 2003 £'000
(1) Turnover by class of business		
Sales and servicing of cars	70,738	100,323
Engineering consultancy	73,558	54,971
	144,296	155,294
Share of joint venture's turnover	940	1,009
	145,236	156,303

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(2) Turnover by geographical market supplied		
United Kingdom	30,919	42,700
Continental Europe	30,010	57,857
North and South America	15,860	11,596
Asia and Africa	67,507	43,141
	144,296	155,294
Share of joint venture's turnover	940	1,009
	145,236	156,303

The turnover of the Company represents royalty income receivable in the UK.

Details of profit before taxation and net assets by class of business and geographical destination are not disclosed because in the opinion of the directors to do so would be seriously prejudicial to the Group.

3 Analysis of operating expenses

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Distribution costs	8,658	9,291	-	-
Administration expenses	24,322	23,167	1,450	11,237
	32,980	32,458	1,450	11,237

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4 Operating profit / (loss)

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
The operating profit/(loss) is stated after charging:				
Operating lease rentals				
- plant and machinery	3	12	-	-
- other assets	652	1,789	-	-
Depreciation				
- owned assets	3,512	9,103	374	1
- leased assets	288	292	-	-
Research and development and continuous engineering expenditure	2,623	3,777	-	-
Auditors' remuneration and expenses:				
- audit fees	120	118	15	15
- other services	38	104	-	-
Loss on foreign exchange transactions	613	965	-	-
Other items:				
- Reorganisation and redundancy costs	161	419	-	-
- Provision against inter-company	-	-	(1,040)	-
Release of provision against inter-company	-	-	-	(9,728)
Provision for diminution of investment in subsidiaries	-	-	-	20,944
And after crediting:				
Royalties receivable	320	431	320	431

Directors' emoluments

	2004 £'000	2003 £'000
Directors' emoluments amounted to		
Aggregate emoluments	632	494
Pension contributions	53	59
	685	553

One director received remuneration directly from an intermediate holding company, Perusahaan Otomobil Nasional Berhad (Malaysian) ("Proton") for services to both the company and Proton. No recharge is made to the company or any of its subsidiaries in respect of these services.

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	2004 £'000	2003 £'000
The emoluments of the highest paid director amounted to		
Aggregate emoluments	150	131
Pension contributions	-	16
	150	147

The highest paid director had an accrued pension of £Nil (2003 £17,000) per annum under a defined benefit scheme.

Retirement benefits were accruing to three (2003 four) directors under a defined benefit pension scheme.

All directors' emoluments were borne by subsidiary companies.

6 Employee and pensions costs

The average number of persons employed by the group (including directors) during the year was as follows:

	2004 Number	2003 Number
Category		
Management and administration	678	772
Production and sales staff	731	715
	1,409	1,487

The aggregate payroll costs of those persons were as follows:

	2004 £'000	2003 £'000
Wages and salaries	43,656	40,684
Social security costs	3,648	3,347
Other pensions costs	2,738	2,549
	50,042	46,580

The Company had no employees.

Pension scheme

The Group operates a defined benefit pension scheme, the Lotus Pension Plan. The assets are held in separate trustee administered funds. In addition it provides life assurance cover for all employees.

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Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a firm of qualified actuaries, Barnett Waddingham Actuaries and Consultants, independent of the Company on the basis of triennial valuations. The most recent valuation was at 31 December 2002, using the projected unit method. The assumptions which have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that annual pre retirement and post retirement investment returns would be 6.5% and 5.5% respectively, that annual salary increases would average 4.0% and that pensions would increase annually at the rate of 2.5%.

The most recent actuarial valuation showed that the market value of the scheme's assets was approximately £20.7 million and that the actuarial value of those assets represented 78% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

As at the valuation date, the scheme had a valuation deficit in respect of past service rights of £5.8 million. The Company has taken several steps to remove the ongoing deficit within a reasonable timescale.

With effect from 1 July 2003 the Company has taken the decision to amend the benefit structure of the scheme whilst maintaining the current contribution rate. The Company has also agreed to contribute additional annual contributions of £300,000 into the scheme with effect from September 2003.

The directors have continued the policy adopted in April 1997 of encouraging membership of the scheme, which has continued to increase throughout the year.

FRS17 transitional provisions

The disclosures required under the transitional arrangements within FRS17 "Retirement Benefits" have been calculated by qualified independent actuaries based on the most recent actuarial valuation at 31 December 2002, updated to 31 March 2004.

The major assumptions used by the actuary for the FRS 17 calculation were as follows:

	2004	2003
Rate of increase in salaries	4.25%	4.00%
Rate of increase in pensions in payment	2.75%	2.50%
Discount rate	5.50%	5.50%
Inflation assumption	2.75%	2.50%
Long term expected rate of return on:		
Equities	7.50%	7.50%
Bonds	5.00%	5.00%
Other	4.00%	4.00%

The assets of the scheme and the expected rate of return were:

	2004 £'000	2003 £'000
Equities	21,847	14,187
Bonds	3,945	3,304
Other	2,773	3,038
Total value of assets	28,565	20,529
Present value of scheme liabilities	(39,024)	(31,704)
Deficit on the scheme	(10,459)	(11,175)
Related deferred tax asset	3,138	3,353
Net pension liabilities	(7,321)	(7,822)

Group Lotus plc

FRS 17 requires disclosure of the effect of the above amounts if their amounts had been recognised in the group financial statements. The effect on the group's net assets and profit and loss reserves would be as follows:

	2004	2003
	£'000	£'000
Net assets		
Net assets/(liabilities) excluding pension liability	10,280	10,565
Pension liability	(7,321)	(7,822)
Net assets/(liabilities) including pension liability	2,959	2,743
Reserves		
Profit and loss reserve excluding pension liability	(48,881)	(48,688)
Pension liability	(7,321)	(7,822)
Profit and loss reserve including pension liabilities	(56,202)	(56,510)

The following amounts would have been recognised in the performance statements in the year to 31 March 2004 under the requirements of FRS 17:

Analysis of the amount charged to operating profit	2004	2003
	£'000	£'000
Current service cost	2,700	2,083
Past service cost	18	152
Total operating charge	2,718	2,235
Analysis of the amount credited to other finance income	2004	2003
	£'000	£'000
Expected return on pension scheme assets	1,463	1,589
Interest on pension scheme liabilities	(1,842)	(1,572)
Net (charge)/return	(379)	17

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Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2004	2003
	£'000	£'000
Actual return less expected return on pension scheme assets	3,178	(6,089)
Experience gains and losses arising on the scheme liabilities	408	854
Changes in assumptions underlying the present value of the scheme liabilities	(2,323)	(3,179)
Actuarial gain recognised in STRGL	1,263	(8,414)

Movement in surplus during the year	2004	2003
	£'000	£'000
Surplus in scheme at beginning of the year	(11,175)	(2,800)
Movement in year:		
Current service cost	(2,700)	(2,083)
Contributions	2,550	2,257
Past service cost	(18)	(152)
Other finance income	(379)	17
Actuarial gain	1,263	(8,414)
Deficit in scheme at end of the year	(10,459)	(11,175)

History of experience gains and losses	2004
Difference between the expected and actual return on scheme assets:	
Amount (£'000)	3,178
Percentage of scheme assets	11.1%
Experience gains and losses on scheme liabilities:	
Amount (£'000)	408
Percentage of the present value of the scheme liabilities	1.0%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£'000)	1,263
Percentage of the present value of the scheme liabilities	3.2%

Group Lotus plc

7 Interest

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Interest receivable				
Interest from bank deposits	244	351	13	16
Other loans	169	131	2,802	3,264
	413	482	2,815	3,280
Interest payable and similar charges				
On amounts wholly repayable within five years:				
Bank overdrafts, trade finance and loans	1,415	1,136	942	330
Group loans	96	395	-	275
Listed debt	1,568	2,769	1,568	2,769
Other loans	7	16	-	-
Finance charges payable under finance leases	-	4	-	-
	3,086	4,320	2,510	3,374

8 Income from fixed asset investment

	2004 £'000	2003 £'000
Dividend received from joint venture	245	-

9 Taxation

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Overseas taxation – current year	246	1,092	-	-
Corporation tax – current year	58	9	-	4
	304	1,101	-	4
Share of joint venture's taxation charge	98	88	-	-
	402	1,189	-	4

Group Lotus plc

The above charges reconcile with the standard rate of corporation tax in the UK as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Profit/(loss) on ordinary activities	633	(601)	(156)	(10,875)
Loss on ordinary activities at standard rate of corporation tax in the UK of 30%	190	(180)	(47)	(3,263)
Shares of joint ventures tax	98	15	-	-
(Capital allowances in excess of depreciation)/Depreciation in excess of capital allowances	(1,821)	1,877	(98)	-
Short term timing differences	(19)	11	-	-
Expenses not deductible for tax purposes	192	236	312	3,267
Overseas tax credit on UK earnings	(58)	(1,055)	-	-
Utilisation of brought forward losses	(167)	(180)	(167)	-
Higher tax rate on overseas earnings	-	352	-	-
Current year losses not utilised	1,987	113	-	-
Current tax charge for year	402	1,189	-	4

Group Lotus plc

10 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tooling, equipment and motor vehicles £'000	Assets in course of construction £'000	Total £'000
Group					
Cost or valuation					
31 March 2003	28,593	34,142	28,427	24	91,186
Additions	93	687	3,935		4,715
Reclassification	-	-	1	(1)	-
Disposals	-	-	(9,397)	-	(9,397)
31 March 2004	28,686	34,829	22,966	23	86,504
Depreciation					
31 March 2003	6,583	23,889	25,259	-	55,731
Charge for the year	431	2,594	775	-	3,800
Disposals	-	-	(9,389)	-	(9,389)
31 March 2004	7,014	26,483	16,645	-	50,142
Net book amount					
31 March 2004	21,672	8,346	6,321	23	36,362
31 March 2003	22,010	10,253	3,168	24	35,455
Company					
Cost					
31 March 2003	4,280	965	309	-	5,554
Additions	31	8	-	-	39
31 March 2004	4,311	973	309	-	5,593
Depreciation					
31 March 2003	1	-	-	-	1
Charge for the year	98	276	-	-	374
31 March 2004	99	276	-	-	375
Net book amount					
31 March 2004	4,212	697	309	-	5,218
31 March 2003	4,279	965	309	-	5,553

Group Lotus plc

The freehold land and buildings of a subsidiary were valued at 31 December 1989 at £12,500,000, all other fixed assets are held at historical cost.

Group	2004 £'000	2003 £'000
The historical cost amounts of freehold land and buildings included at valuation are as follows:		
Cost	5,513	5,513
Depreciation	(2,335)	(2,206)
	3,178	3,307

Included within Group plant and machinery are leased assets with a cost of £5,950,000 (2003 £5,950,000) and accumulated depreciation of £5,298,000 (2003 £5,010,000). Included within fixtures, fittings, tooling, equipment and motor vehicles are leased assets with a cost of £104,000 (2003 £104,000) and accumulated depreciation of £104,000 (2003 £104,000).

11 Investments

	Group	Company			
	Joint venture	Shares in subsidiaries	Loans to subsidiaries	Joint venture	Total
	£'000	£'000	£'000	£'000	£'000
31 March 2003	474	28,506	3,000	1	31,507
Addition	-	-	-	-	-
Share of retained profit after taxation	225	-	-	-	-
Dividend received	(245)	-	-	-	-
31 March 2004	454	28,506	3,000	1	31,507
Provision for diminution					
31 March 2003	-	(28,506)	(3,000)	(1)	(31,507)
Charge for the year	-	-	-	-	-
31 March 2004	-	(28,506)	(3,000)	(1)	(31,507)
Net book amount					
31 March 2004	454	-	-	-	-
31 March 2003	474	-	-	-	-

Group Lotus plc

12 Stocks

	Group 2004 £'000	Group 2003 £'000
Raw materials	4,555	4,032
Cars in course of production and other work in progress	543	946
Service stocks	5,458	4,065
Finished goods	3,784	4,633
	14,340	13,676

The Company has no stocks.

13 Debtors

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Amounts falling due within one year				
Trade debtors	25,845	26,227	63	52
Amounts recoverable on long term contracts	-	945	-	-
Amounts owed by ultimate parent undertaking	16,336	5,365	-	-
Amounts owed by other group undertakings	2,277	1,270	26,028	1,270
Other debtors	1,255	2,654	-	-
Prepayments and accrued income	-	350	-	1
	46,472	36,811	26,091	1,323
Amounts falling due after more than one year				
Amount owed by immediate parent undertaking	13,511	43,510	13,511	39,807
	13,511	43,510	13,511	39,807
	59,983	80,321	39,602	41,130

The amount owed by the immediate parent undertaking comprises a loan to Lotus Group International Limited ("LGI"). The Company has provided a letter of undertaking to LGI indicating that it will not seek repayment of the outstanding debt for a period of at least one year from the date of signing these accounts. As disclosed in the Accounting Policies on page 12, the board of Proton have indicated that they will provide financial support to LGI and its subsidiary undertakings; this would include financial support to enable LGI to repay this debt to Group Lotus plc if called upon to do so.

Group Lotus plc

14 Creditors – Amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank overdrafts and trade finance	10,290	10,560	-	-
Listed debt (unsecured)	-	39,884	-	39,884
Bank loans (unsecured)	-	3,226	-	3,226
Obligations under finance leases	-	21	-	-
Trade creditors	12,681	12,098	3	33
Amounts owed to ultimate parent undertaking	2,393	2,434	34	34
Amounts owed to fellow group undertakings	2,883	2,319	88	89
Amounts owed to subsidiaries	-	-	-	2
Corporation tax	50	57	-	-
Other taxes and social security	1,183	1,235	-	-
Accruals and deferred income	13,359	13,641	1,914	1,181
Payments in advance	20,946	19,103	-	-
	63,785	104,578	2,039	44,449

Trade finance amounting to £3,229,000 (2003: £3,156,000) relating to bank advances to the Group in respect of vehicle sales to overseas dealers. Repayment is due when cash is received from the dealers. Interest is based on local currency bank base rates.

Bank overdrafts include an advance of £6,616,000 (2003 £5,044,000) secured on certain trade receivables of the Group.

The listed debt as at end of March 2003 represented £40,000,000 guaranteed floating rate notes (net of issue costs not yet amortised amounting to £116,000) in denominations of £100,000 issued in October 2000 and was fully repaid in October 2003. The debt was listed on the London Stock Exchange and guaranteed by the ultimate parent undertaking of the Group. Interest was payable in arrears in April and October at a rate of LIBOR plus 1.2% per annum.

As at 31 March 2003, the Group had a bank loan of £3,225,750 drawn against a facility to fund a specific long-term engineering contract. The loan was fully repaid in four instalments of £609,750 and a final payment of £786,750 in July 2003. Interest was payable at 0.75% above bank base rate. The loan was secured by a deed of assignment on the contract receivables against which the funding was advanced.

Group Lotus plc

15 Creditors – Amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loans (unsecured)	39,744	-	39,744	-
Amount owed to other group undertakings	-	29,999	-	-
Accruals and deferred income	701	789	701	789
	40,445	30,788	40,445	789

As at 31 March 2004, the Company has a bank loan of £40,000,000 (net of issue costs not yet amortised amounting to £256,000), repayable in full in October 2006. Interest is payable in arrears in April and October at a fixed rate of 4.94%. The debt is secured by fixed deposits of Perusahaan Otomobil Nasional Sdn Bhd.

16 Leasing commitments

The future payments to which the Group is committed under finance leases are payable as follows:

	2004 £'000	2003 £'000
Minimum lease payments payable		
Within one year	-	22
Between two and five years	-	-
	-	22
Finance charges allocated to future years	-	(1)
	-	21

Group Lotus plc

17 Provisions for liabilities and charges

Group	£'000
(1) Warranty provision	
31 March 2003	2,530
Additional provision	2,274
Utilised in the year	(1,799)
31 March 2004	3,005

All vehicles sold by the Group have a warranty period of between 12 and 24 months.

	2004 Recognised £'000	2004 Not recognised £'000	2003 Recognised £'000	2003 Not recognised £'000
(2) Deferred asset tax may be analysed as				
Accelerated capital allowances	-	3,696	-	5,087
Short term timing differences	-	825	-	876
Losses available for future relief	-	17,796	-	17,100
	-	22,317	-	23,063

No provision has been made for the potential liability to deferred taxation of approximately £1,800,000 (2003 £1,800,000) in respect of the surplus arising on the revaluation of land and buildings in a subsidiary company, as the Group does not intend to dispose of the assets in the foreseeable future. The Company has no potential deferred tax liability.

No deferred tax asset has been recognised as the recovery is considered to be uncertain in the short term.

The company has a net deferred tax asset of £987,000 (2003 £750,000) this has not been recognised as the recovery is considered to be uncertain in the short term.

18 Called up share capital

	Number 2004 £'000	Number 2003 £'000	Nominal value 2004 £'000	Nominal value 2003 £'000
Authorised				
Ordinary shares of 10p each	444,360	444,360	44,436	44,436
Allotted and fully paid				
Ordinary shares of 10p each	444,360	444,360	44,436	44,436

Group Lotus plc

19 Reserves

	Share Premium account £'000	Revaluation reserve £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
Group					
31 March 2003 as previously stated	8,120	6,487	210	(49,171)	(34,354)
Prior year adjustment (note 1)	-	-	-	483	483
31 March 2003 as restated	8,120	6,487	210	(48,688)	(33,871)
Profit for the financial year	-	-	-	231	231
Transfer of additional depreciation on revalued assets	-	(92)	-	92	-
Foreign exchange translation	-	-	-	(516)	(516)
31 March 2004	8,120	6,395	210	(48,881)	(34,156)
Company					
31 March 2003	8,120	-	210	(50,274)	(41,944)
Loss for the financial year	-	-	-	(156)	(156)
31 March 2004	8,120	-	210	(50,430)	(42,100)

The merger reserve arises on acquisition of Lotus Cars US Inc.

The profit and loss account reserve deficit is stated after deducting £454,000 (2003: £474,000) of reserves attributable to the joint venture.

20 Reconciliation of movements in shareholders' funds

	Group 2004 £'000	Group (restated) 2003 £'000	Company 2004 £'000	Company 2003 £'000
Profit/(loss) for the financial year	231	(1,790)	(156)	(10,879)
Foreign exchange translation adjustments	(516)	(129)	-	-
Issue of share capital	-	30,000	-	30,000
Merger reserve	-	-	-	-
Net movement in shareholders' funds	(285)	28,081	(156)	19,121
Opening shareholders' funds	10,565	(17,516)	2,492	(16,629)
Closing shareholders' funds	10,280	10,565	2,336	2,492

Group Lotus plc

21 Cash flow statement

	2004 £'000	2003 £'000
(1) Reconciliation of operating profit to net cash flow from operating activities		
Group operating profit	2,983	2,995
Depreciation of tangible fixed assets	3,800	9,395
Loss on disposal of fixed assets	-	227
Increase/(decrease) in warranty provision	475	(321)
(Increase)/decrease in stocks	(664)	2,728
Decrease/(increase)/ in debtors	20,224	(36,259)
(Decrease)/increase in creditors	(26,201)	40,288
Net cash inflow from operating activities	617	19,053

	At 31 March 2003 £'000	Cash flow £'000	Non cash movements £'000	Exchange movement £'000	At 31 March 2004 £'000
(2) Analysis of net debt					
Cash at bank and in hand	18,535	(10,475)	-	(1,684)	6,376
Bank overdrafts and trade finance	(10,560)	249	-	21	(10,290)
Net cash/(overdraft)	7,975	(10,226)	-	(1,663)	(3,914)
Listed debt (note 14)	(39,884)	40,000	(116)		-
Bank loans (note 14 and 15)	(3,226)	(36,774)			(40,000)
Finance leases	(21)	21			-
Total debt	(43,131)	3,247	(116)	-	(40,000)
Total net debt	(35,156)	(6,979)	(116)	(1,663)	(43,914)

Group Lotus plc

22 Capital commitments

	Group 2004 £'000	Group 2003 £'000
Contracted for but not provided for	106	166

The Company has no capital commitments.

23 Operating leases

At 31 March 2004 the Group was committed to making the following payments during the next year in respect of operating leases expiring:

	2004 £'000	2003 £'000
Within one year	617	954
Between one and five years	343	678
After five years	-	-
	960	1,632

Included within the amounts disclosed above in respect of operating leases expiring within one year and between one and five years are £Nil (2003: £122,000) and £Nil (2003 £41,000) respectively in respect of land and buildings. The remaining operating lease rentals are payable in respect of plant and machinery and other assets.

24 Subsidiary undertakings and joint ventures

The following companies are the principal subsidiaries of Group Lotus plc, which directly or indirectly owns all of their issued ordinary share capital.

	Country of incorporation	Nature of business
Lotus Cars Limited	England	Car manufacture and engineering consultancy
Lotus Body Engineering Limited	England	Dormant
Lotus Engineering Limited (indirect)	England	Engineering consultancy
Lotus Motorsport Limited	England	Dormant
Lotus Engineering Malaysia Sdn Bhd (indirect)	Malaysia	Engineering consultancy
Lotus Holding Inc	USA	Holding company
Lotus Engineering Inc (indirect)	USA	Engineering test facilities
Lotus Cars USA Inc (indirect)	USA	Car sales and servicing

All subsidiary undertakings have been included in the consolidation.

Group Lotus plc

The Group has a joint venture arrangement, Lotus Finance Limited, a company incorporated in England and Wales in which it has a 49.9% interest. The entity's financial year end is 31 December and its principal activity is the provision of finance to dealers for the acquisition of Lotus cars.

25 Parent companies and financial support

Group Lotus plc is a wholly owned subsidiary of Lotus Group International Limited, a company incorporated in Great Britain and registered in England and Wales. The Company's ultimate parent company is Perusahaan Otomobil Nasional Berhad (Proton), a company incorporated in Malaysia. As indicated on page 12 Proton has confirmed that it will provide the necessary financial support to enable the Company and its subsidiaries to continue to trade and meet its liabilities as they fall due for the foreseeable future. Subsequent to the year end, on 5 April 2004, following a group restructuring, the ultimate parent undertaking became Proton Holdings Berhad, a company incorporated in Malaysia.

The consolidated financial statements of Proton comprise the group accounts of the largest group which includes the Company. Copies of Proton's group financial statements are available from its registered office at Kawasan Perindustrian HICOM, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia. The parent undertaking of the smallest such group is Lotus Group International Limited. Copies of the group financial statements of Lotus Group International Limited are available from its registered office at Hethel, Norwich, Norfolk, NR14 8EZ.

26 Related party transactions

- (1) Perusahaan Otomobil Nasional Berhad (Proton), a company incorporated in Malaysia, is the Company's ultimate parent undertaking.

During the year ended 31 March 2004 the Group provided Proton and its subsidiaries with engineering services to a value of £56,710,000 (2003 £44,790,000). At 31 March 2004 the outstanding balances due to and from Proton were £2,393,000 (2003 £2,434,000) and £16,336,000 (2003 £5,365,000) respectively.

- (2) Proton Cars (UK) Limited (PCUKL) is a fellow subsidiary company of Proton.

PCUKL undertakes parts warehousing and distribution on behalf of the Group. Management fees of £1,158,000 (2003 £1,098,000) relating to this agreement and a further £181,000 (2003 £330,000) of expenses have been charged by PCUKL. The outstanding amount due to PCUKL at March 2004 was £418,000 (2003 £345,000). During the previous financial year, PCUKL entered into a 10 year tenancy agreement with the Company. An advance rental for the ten year period was paid by PCUKL and as at 31 March 2004, a balance of £789,000 (2003 £878,000) remains outstanding as deferred income.

- (3) The Group operates an Executive Car purchase scheme which allows directors to purchase Company products at marginal cost or above. During the year directors purchased vehicles with a cost of £124,000 (2003 £98,000). At 31 March 2004 the amount outstanding from directors under this scheme was £Nil (2003 £Nil).
- (4) Under the terms of a financing agreement, Lotus Finance Limited, in which the Company has a 49.9% interest, provides finance services to dealers and customers of the Group to enable them to acquire Lotus cars. During the year cars with a sales value of £20,481,000 (2003 £20,080,000) were sold through Lotus Finance Limited. At the year end no amount was payable or receivable from Lotus Finance Limited.
- (5) The Company has taken advantage of the exemptions provided by FRS 8 not to disclose transactions with other Lotus group companies that qualify as related parties